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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

JUL 24 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of:

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Revision to Amend Part 32)	
Uniform System of Accounts for)	
Class A and Class B Telephone)	CC Docket No. 95-60
Companies to Raise the Expense Limit)	
For Certain Items of Equipment from)	
\$500 to \$750)	

COMMENTS
of the
UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) respectfully submits these comments in the above-referenced proceeding. USTA is the principal trade association of the local exchange carrier (LEC) industry with more than 1,000 members. USTA filed the Petition for Rulemaking that initiated this proceeding, in which we proposed to increase the current limit to \$2,000 from \$500 for certain support assets.

USTA urges the Commission to reconsider its tentative conclusion that an increase to \$750 is an adequate expense limit for support assets. While we agree that an increase is appropriate at this time, \$750 is not enough to fully acknowledge the vast competitive changes that have occurred since the Commission last changed the expense limit in 1988. A rules change to allow LECs to expense support assets costing \$2,000 or less is a necessary response to today's rapidly changing telecommunications environment. The Commission's stated concerns give excessive deference to the phantom benefits of LECs' maintenance of an overly stringent capitalization policy.

The Commission states that our proposed increase to \$2,000 is “excessive.” (NPRM at para. 9) The analysis attributing \$135 of the Commission’s proposed expense limit increase of \$250 to inflation between 1988 and today and the remaining \$115 to the prevention of an inflation adjustment for the next five years fails to consider the sweeping changes to the telecommunications environment since 1988, including price cap regulation for the majority of nation’s largest LECs, the emergence of competitive access providers, the introduction of expanded interconnection, and the planned entry of cable companies into the telephony business. Surely these major environmental changes justify an increase in the limit to \$2,000. Expensing minor assets upon purchase and foregoing the unproductive process of accounting for these relatively small dollar-value assets over their Commission-prescribed lives is more consistent with the rapidly changing telecommunications environment. Further, the Commission implies that a follow-up proceeding may be necessary in five years (NPRM at para. 9). An adequate increase to the limit today can prevent the initiation of a redundant proceeding in the near future.

The Commission acknowledges that the amortization of the embedded assets would be revenue-neutral (NPRM at para. 10), yet takes issue with the revenue-neutrality of new purchases. Annual purchasing for these relatively minor assets is roughly consistent from year to year. Even if variations of the purchase activity in these accounts occurs, the overall impact on LEC financial statements would be minimal, as support assets represent only a small portion, generally five percent or less, of LECs’ balance-sheet assets.

USTA’s proposed increase is supported by Commission precedent. The Commission doubled the expense limit in 1974, quadrupled it in 1981 and increased in two-and-one-half times in 1988 (NPRM at para. 4). USTA’s proposal is quadruple that of the current rules, which is within historical parameters, and the Commission’s proposed increase is only fifty percent, which is far below the lowest increase of 100%.

Finally, we agree with the Commission’s assertion that our proposed accounting change should not be eligible for exogenous cost (NPRM at para. 11).

For the aforementioned reasons, and for the reasons outlined in the Petition, USTA urges the Commission to increase the expense limit for support assets to \$2,000.

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

BY 

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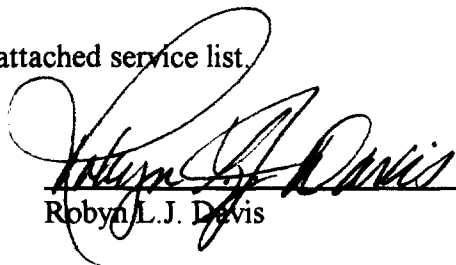
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July 24, 1995

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on July 24, 1995 copies of the Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.


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